



M. J. "MIKE" FOSTER, JR.  
GOVERNOR

March 26, 2001

MR. PRESIDENT, MR. SPEAKER AND HONORABLE MEMBERS OF THE LEGISLATURE:

Presented, herewith, is my budget recommendation for the fiscal year beginning July 1, 2001. It has been prepared in accordance with the Constitution and applicable statutes, and provides financial and program information to assist you in making informed decisions as you consider appropriations for the coming year. In accordance with Article VII, Section 11 of the Constitution, I will also prepare the original appropriation bill in conformity with this document.

In the development of this executive budget, we once again faced significant challenges. But these challenges did not cause us to lose our focus or forget our priorities. That is why I have again included significant strategic investments in education and infrastructure as recommended in *Louisiana: Vision 2020*, the state's economic development master plan and its accompanying *Action Plan 2000*.

As the *Vision 2020* plan makes clear, if our state is to move forward with economic development and economic diversification, we must prioritize funding for education and infrastructure. *Vision 2020* also calls for the streamlining of government agencies through the increased use of technology and improved human resource and service delivery practices. Due to the slow growth of our state's revenue stream, these proposed downsizing and reengineering efforts in government agencies will be critical to our ability to continue to make investments in our priority areas.

In FY 2001-2002, General Fund revenues are projected to grow by approximately 2%. The expectation of lower employment growth will cause less than average growth in the individual income tax. This projection reflects the slow down in the income tax collection that began in the current year. Further, for FY 2001-2002, mineral royalties are expected to drop by approximately 22%. Of the major revenue sources, only the severance tax is expected to keep pace with personal income growth. The severance tax growth will result from the indexation of the natural gas severance tax rate.

Despite slow revenue growth, required expenditures continue to rise in many areas. Some demands are related to mandatory programs; others are a result of our own investment strategies. As in other states, Louisiana's Medicaid costs are climbing as price tags for medical and pharmaceutical services escalate. Our recent settlement with the U.S. Department of Justice regarding the state's juvenile justice facilities adds \$14.8 million in educational and medical program improvements to expected current fiscal year spending and calls for an additional \$10.5 million to implement the mental-medical health component in FY 2001-2002. The success of programs such as TOPS—which now provides merit-based college scholarships to over 35,000 Louisiana students—and the Louisiana Children's Health Insurance Program—which has succeeded in enrolling over 100,000 previously uninsured children in Medicaid or LaCHIP—has generated increased service and funding needs. Our decision to place most of the Tobacco Settlement funds in trust as well as decisions made over several years to defease state debt on a short-term basis have caused increased expenditure requirements again this year.

A common concern of many states is the financial instability of employee health insurance programs. The problems of Louisiana's State Employees Group Benefits Program have resulted in a total projected deficiency of \$135 to \$137 million for the program by the end of FY 2000-2001. To seek solutions to this problem, I have established the State Employees Health Benefits Study Commission to recommend reforms that will ensure that our state employee health program operates in an actuarial sound manner in the future. But, in anticipation of the need to increase premium rates for program participants, I have included a budgetary recommendation to accomplish that without sending the program into a "death spiral" in which rates become so expensive that employee participants flee the system.

In large part because of the problems of the State Group program, Louisiana ran a deficit last year. As a result, my administration has had to take steps to reduce spending in order to avoid a budgetary shortfall in the current year. In February 2001, I issued an executive order cutting \$29.4 million in expenditures in most agencies of state government. As I have done in the past, I exempted higher education and other priority areas.

In the face of these budget challenges and our commitment to making new education and infrastructure investments, my administration refocused the budget development process for the FY 2001-2002 executive budget. Typically, we begin budget development with a continuation budget that identifies the cost of conducting today's business in tomorrow's marketplace. For FY 2001-2002 that continuation budget projected a shortfall of nearly \$216.6 million below available revenues. So, while the continuation budget process may be good for long-term planning, we generally do not have enough money each year to fully fund a continuation budget. Further, a continuation budget assumes that we will continue to do business in the same way without any productivity increases or technological improvements.

That is not my philosophy. Over the last several years, we have worked together to craft "investment" budgets focused on areas—such as education and infrastructure—that give taxpayers the strongest return. In light of the state's fiscal difficulties and investment priorities and the fact that the continuation budget focuses on expenditures not on outcomes, I decided

that using it was not the most practical way to approach budget preparation. Therefore, my administration used a new budget development process—target dollar budgeting—to formulate this budget recommendation. Taking into account revenue estimates, means of financing, mandated expenditures and other spending restrictions, as well as the state's mounting unmet needs and priority investment areas, each state department was assigned a target dollar figure with which to plan and budget. However, decisions regarding the specific allocation of resources within those target dollars were generally left to the discretion of department managers.

The target dollar concept enabled us to work with our department executives to focus on priorities and identify ways to change how we do business in state government—to find ways to live within our means and deliver services more efficiently and effectively and ways to make some of the critical investments that will shape the future for our children, our families, and our state.

As a result, more than \$800 million worth of cuts (of which over \$250 million are from General Fund revenues) are included in this budget document. For the fifth straight year, my administration has asked state agencies to absorb merit raises and inflation. We will also continue to downsize government. As you know, the general appropriation act for FY 2000-2001 eliminated 2,187 authorized positions statewide. My FY 2001-2002 budget recommendation calls for the reduction of another 2,712 positions this year. Once again I am asking that these reductions be made through attrition, with layoffs only if necessary, and to accomplish this I am proposing that state departments be allowed until January 1, 2002, to realize these additional personnel reductions.

Many of the proposed cuts are challenging, particularly those in the areas of hospitals, health care and social services. However, to the greatest extent possible, direct services to patients and clients will be spared. We are asking agencies to focus on their missions to undertake reengineering so as not to reduce services, and we have invested in technology for digital government to enable more efficient and effective customer services. For example, our new automated human resource system replaces three separate, less efficient systems. My budget recommendation for FY 2001-2002 includes funding to continue our transformation to e-government, and the state's first Chief Information Officer who was recently hired will help us manage our technology purchases to save money, combine systems, automate processes, and improve performance.

In this budget recommendation, we are also asking state departments to absorb the estimated requirements for a 12.5% increase in premiums for the State Employees Group Benefits Program. Further, to avoid a possible "death spiral" effect, we are asking state departments to pick up the entire 12.5% increase for active employees, thereby increasing the state share of group insurance premiums from 50% to 55.55%. Actuaries have estimated that the 55.55% option is less expensive than losing more employee participants due to increased premiums.

Because of our continued commitment to the improvement of the educational system in our state and our recognition of education's keystone status relative to Louisiana's future economic growth and prosperity, we sheltered most educational entities from reductions. Also, positions critical to tax collection were exempted from personnel cuts.

*Vision 2020* and *Action Plan 2000* underscore why my philosophy of investment budgeting, guided by strategic planning, is so vital. We simply do not have the financial resources to spend our way off the bottom of competitive rankings among states. So instead we must deploy our resources in those areas that will yield the greatest return on investment.

To stimulate economic renewal and diversification and create a better Louisiana, *Vision 2020* and *Action Plan 2000* target education and infrastructure as the most vital areas for strategic investment. I have maintained my commitment to these priorities in this budget submission, even in the face of difficult budgetary challenges.

I continue to believe that we must use our first dollars to improve our educational system, not our last dollars. Therefore, this budget recommendation contains the following investments:

- A \$25 million Information Technology Initiative for Higher Education to begin recurrent targeted investment in university-based programs designed to build Louisiana's capacity to support technology-intensive enterprises.
- \$12 million in continued funding for library and scientific acquisitions at state universities.
- \$3.1 million in increased funding for the Pennington Biomedical Research Center to expand functional food research; develop three new labs to focus on childhood obesity, exercise physiology/biochemistry, and molecular cell biology; expand a program in nutrition and chronic disease to address diet and cancer, diabetes prevention, and osteoporosis; and establish the Proteomics Core Facility, through which scientists will have access to the most sophisticated technologies to research relationships between genetics, nutrition, and health and disease.
- A \$16.2 million increase in the Tuition Opportunity Program for Students (TOPS).
- \$739,710 to continue the Louisiana Systemics Initiatives Program, which provides professional development to 800-900 teachers each year. These professional development activities have led to increased student test scores on the LEAP 21 and Iowa tests.

- Almost \$26 million for the School and District Accountability Program, including \$10 million in rewards for those schools that meet or exceed their growth target; an additional \$5.6 million for the local school districts to expand their remediation and tutoring programs; \$3.9 million for the testing program; \$3 million for summer school; and \$2.6 million for Distinguished Educators, who provide direct assistance to low-achieving schools.

Further, I remain committed to raising the salaries of Louisiana's classroom teachers to the southern average. As a first step, I am asking that the Board of Elementary and Secondary education dedicate the normal growth in the minimum foundation formula (\$71.5 million) to a pay raise that will average \$1,000 per teacher. As a supplementary recommendation, I also propose the dedication of \$70.4 million in enhanced gaming revenues to a pay raise that will average another \$1,000 per teacher.

Another supplementary recommendation, dependent upon legislative approval of the supplemental appropriation bill, will use mineral settlement funds to leverage \$23 million, which will match \$41.8 million in private donations for endowed chairs and professorships at state universities.

My FY 2001-2002 budget recommendation also addresses needs related to public safety, health care, economic development, state parks, and the well being of families and children. For example, it includes:

- \$16.8 million to fund pay increases to \$200 per month for corrections security officers through wardens and \$200 per month for probation and parole officers through directors. This equates to an approximate 13.255% average pay increase and will help take Louisiana's corrections officers off the bottom of nationwide pay scales.
- \$1.8 million for enhanced security for the Capitol Park.
- \$2.7 million for implementation of a DNA indexing system and DNA analysis at the State Police Crime Lab.
- \$300,000 for the Office of Motor Vehicles to purchase a mobile motor vehicles office. This mobile unit will provide vehicle registration and driver-related services to citizens of Louisiana living in rural areas.
- \$65,000 to implement a Family Violence hotline.
- \$3.6 million to maintain operations of 25 drug courts.
- \$1.7 million to expand forensic mental health services in order to address the waiting list of clients currently in parish jails awaiting admission to the Feliciana Forensic Facility.
- \$235,000 to establish the Louisiana Center of Excellence for Autism (as required by Louisiana Revised Statute 46:1301).
- Over \$27 million to annualize the LaCHIP Phase III, expanding coverage from 150% to 200% of the federal poverty level.
- \$3.7 million to fund the continued cost of the Statewide Automated Child Welfare Information System, which is moving from the design to the development and implementation phase. The system will automate the case management process, providing for an integrated system capable of capturing and reporting critical child welfare service and payment data in a standardized manner.

- Approximately \$13.5 million for economic development projects.
- Over \$500,000 for staffing and operating expenses to maintain ten new cabins at Cypremort Point State Park, to staff, maintain, and operate the new Visitor Center at Ft. St. Jean Baptiste State Historic Park, and provide for the I-49 Welcome Center in Alexandria and the Butte-LaRose I-10 Welcome Center.

Despite the significant downsizing of government contained in this executive budget, we still find ourselves at a critical juncture in Louisiana state government. Although I am proposing another large reduction in authorized positions, I recognize that, in the end, we must not only have fewer state employees, we must have better paid, better trained, and better equipped state employees. We must continue to pursue innovative ways to deliver services more efficiently and effectively. In particular we must utilize technology to conduct more business on the Internet; contract out more state activities, including state computer work; and revamp the Department of Economic Development. We must live within our means yet make those investments critical to the future of our state. That will be our challenge as we work together to pass an appropriation bill that best utilizes our resources and addresses the priorities of our citizens.

I look forward to working with you and, as always, my staff and I stand ready to assist you in any way possible as you consider this budget.

Sincerely,

A handwritten signature in black ink, appearing to read "M.J. Foster, Jr.", written in a cursive style.

M.J. "Mike" Foster, Jr.

March 26, 2001

# Acknowledgments

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